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BEFORE THE TENNESSEE REGULATORY AUTHORITY

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NASHVILLE, TENNESSEE

August 16, 2004

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 04-00189**

**NOTICE OF FILING BY THE ENERGY AND WATER DIVISION OF THE
TENNESSEE REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (the "Energy and Water Division") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Chattanooga Gas Company (the "Company").

2. The Company's WNA filings were received on November 1, 2003, through April 30, 2004, and the Staff completed its audit of same on July 13, 2004.


3. On July 14, 2004, the Energy and Water Division issued its preliminary WNA audit findings to the Company, and on July 28, 2004, the Company responded thereto.

4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report

contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:



Pat Murphy
Energy and Water Division
of the Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of August, 2004, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Pat Miller
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. Archie Hickerson
Manager - Rates
Atlanta Gas Light Company
Location 1686
P.O. Box 4569
Atlanta, GA 30302-4569

Mr. Phil Buchanan
Rates and Regulatory Consultant
Atlanta Gas Light Company
Location 1686
P.O. Box 4569
Atlanta, GA 30302-4569


Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 04-00189

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

AUGUST 2004

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 04-00189

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 04-00189

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment ("WNA") Rider of Chattanooga Gas Company ("CGC" or "Company"), a wholly owned subsidiary of AGL Resources, Inc. The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2003 and April 30, 2004. As a result of the WNA Rider, the Company surcharged a net \$573,722 and \$492,237 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues for these classes is detailed in Section V.

The Staff's audit resulted in four (4) findings and showed that the Company over-collected \$10,769 from its customers (\$5,577 from the residential customers and \$5,192 from the commercial customers). See Section VI for a description of the Staff's findings. The amount of the over-collection is immaterial (approximately \$0.17 per customer). Therefore, except for the findings noted in this report, Staff concludes that CGC is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff. (See Attachment 1)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- (3) the Company's calculation of the WNA factor to Staff's calculation for each billing cycle during the WNA period.

The Staff also audited a sample of customer bills to verify that the WNA factor had been correctly applied to the bills

Pat Murphy and Butch Phillips of the Energy and Water Division conducted this audit

III. BACKGROUND INFORMATION ON THE COMPANY

Chattanooga Gas Company, with its headquarters at 6125 Preservation Drive, Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., which has its headquarters at Ten Peachtree Place, Atlanta, Georgia. CGC is a gas distributor, which provides service to the cities of Chattanooga and Cleveland and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is purchased by Sequent Energy Management ("Sequent" or "SEM")¹ from various suppliers and transported by East Tennessee Natural Gas and Southern Natural Gas under tariffs approved by the Federal Energy Regulatory Commission ("FERC").

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

On September 26, 1991, the Tennessee Public Service Commission² ("PSC") approved a three-year experimental Weather Normalization Adjustment Rider to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.³ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (*See* Attachment 1). On June 21, 1994, the PSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version of the WNA Rider.⁴ The TRA Staff annually audits these calculations.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and

¹ Sequent is a marketing affiliate of CGC

² By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. *See* Act of May 24, 1995, ch 305, 1995 Tenn Pub Acts 450. The TRA retains jurisdiction over the above named gas companies. *See* Tenn Code Ann § 65-4-104 *see also* Tenn Code Ann § 65-4-101 (a) (defining public utility)

³ *See* petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991)

⁴ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May

- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

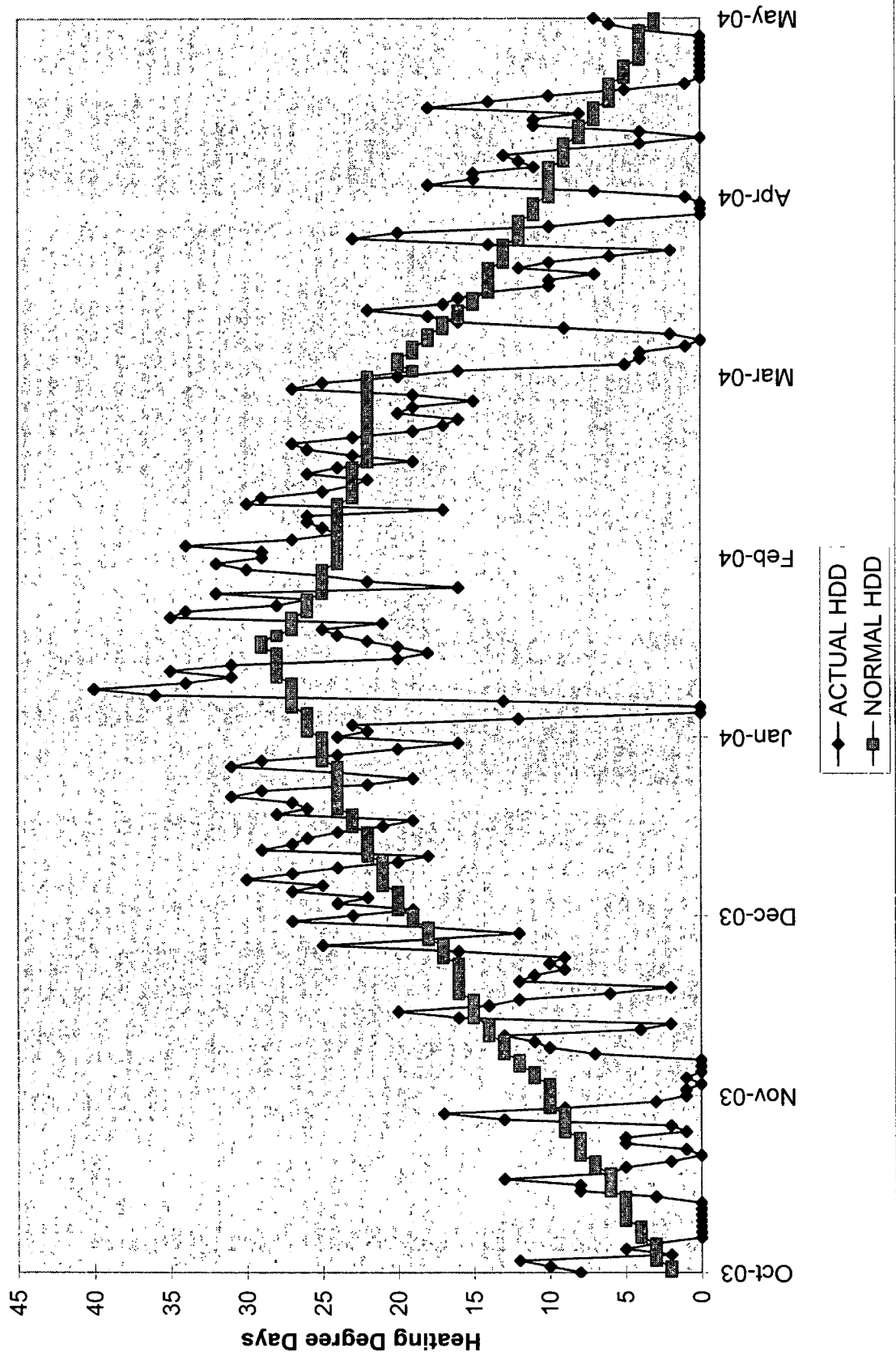
The graph (found at the end of this section) compares the actual heating degree days to normal heating degree days for Chattanooga Gas during the 2003 - 2004 winter heating season. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month. It shows that overall the weather was approximately 10 percent warmer than normal, resulting in a net surcharge to CGC's customers for the period.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2003 ⁵	142	189	Warmer
November 2003	309	446	Warmer
December 2003	754	707	Colder
January 2004	777	819	Warmer
February 2004	655	655	Normal
March 2004	284	443	Warmer
April 2004	180	186	Warmer
Total	3101	3445	Warmer

⁵ We have included the month of October in our comparison since the bill cycles for the month of November include a portion of October actual degree days in the calculation of the WNA factors

Chattanooga Gas Company

Comparison of Actual to Normal Heating Degree Days



V. IMPACT OF WNA RIDER

The overall winter period for Chattanooga was warmer than normal. As a result, the net impact of the WNA Rider during the November 1, 2003 through April 30, 2004 WNA period was that residential and commercial customers were **surcharged** an additional \$573,722 and \$492,237 respectively. The percentage of total residential and commercial revenue derived from the WNA Rider was 1.79% and 1.46% respectively. (See Table 1) This is an increase from the previous year when the residential and commercial customers were **surcharged** \$158,753 and \$134,516 respectively (See Table 2).

Table 1

Impact of WNA Rider on Residential & Commercial Revenues November 1, 2003 - April 30, 2004

	<u>WNA Rider Revenues</u>	<u>Total R&C Revenues</u>	<u>Percentage Impact of WNA Rider on R&C Revenues</u>
Residential Sales	\$ 573,722	\$ 32,122,845	1.79%
Commercial Sales	<u>492,237</u>	<u>33,668,655</u>	1.46%
Total	<u>\$1,065,959</u>	<u>\$ 65,791,500</u>	1.62%

Table 2

Amount Surcharged (Refunded) 2001 - 2004

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/01-4/02	\$1,295,861	\$1,142,484	\$2,438,345
11/02-4/03	158,753	134,516	293,269
11/03-4/04	<u>573,722</u>	<u>492,237</u>	<u>1,065,959</u>
Total	<u>\$ 2,028,336</u>	<u>\$ 1,769,237</u>	<u>\$ 3,797,573</u>

VI. WNA FINDINGS

The Staff's audit results showed a net **over-collection** from CGC's ratepayers in the amount of **\$10,769**. See table below for a breakdown of this amount by month and rate class:⁶

Month	Residential	Multi-Family	Commercial	Total
November 2003	\$ 0	\$ 191	\$ 0	\$ 191
December 2003	0	0	0	0
January 2004	0	0	0	0
February 2004	(4,580)	0	(3,277)	(7,857)
March 2004	(1,188)	0	(1,915)	(3,103)
April 2004	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ (5,768)</u>	<u>\$ 191</u>	<u>\$ (5,192)</u>	<u>\$ (10,769)</u>

This net over-collection resulted from two (2) findings, which are described in detail in Findings #1 and #2, beginning on page 6. Finding #3 and #4 did not result in any monetary audit adjustments

⁶ Positive nos represent an under-collection Negative nos () represent an over-collection

FINDING #1:**Exception**

The Company used incorrect Actual Heating Degree Days (ADD) in the calculation of the WNA factor for customers billed on the End of Month (EOM) for November 2003.

Discussion

When calculating the WNA factor for customers on the EOM cycle in November 2003, the Company used an incorrect schedule of ADD for the month. However, for all other bill cycles in November, the Company used the correct ADD. The following shows the ADD used by the Company as compared to ADD published by NOAA.

Day	Bill Group	ADD (CGC)	ADD (NOAA)	Difference
November 1	EOM	3	1	-2
November 2	EOM	5	0	-5
November 3	EOM	4	1	-3
November 4	EOM	2	0	-2
November 5	EOM	0	0	0
November 6	EOM	0	0	0
November 7	EOM	6	7	+1
November 8	EOM	9	10	+1
November 9	EOM	14	11	-3
November 10	EOM	13	13	0
November 11	EOM	8	4	-4
November 12	EOM	3	2	-1
November 13	EOM	13	16	+3
November 14	EOM	23	20	-3
November 15	EOM	16	14	-2
November 16	EOM	14	12	-2
November 17	EOM	7	6	-1
November 18	EOM	2	2	0
November 19	EOM	6	12	+6
November 20	EOM	15	11	-4
November 21	EOM	14	9	-5
November 22	EOM	12	10	-2
November 23	EOM	10	9	-1
November 24	EOM	13	16	+3
November 25	EOM	28	25	-3
November 26	EOM	20	18	-2
November 27	EOM	15	12	-3
November 28	EOM	15	18	+3
November 29	EOM	29	27	-2
November 30	EOM	33	23	-10
Total ADD		352	309	-43

The result of this error resulted in a **\$191 under-collection** from CGC's customers.

Company Response

The Company agrees that when calculating the WNA factor for three Multi-Family Housing Service customers on the EOM cycle in November 2003, the Company used an incorrect schedule of ADD for the month. However, for all other bill cycles in November, the Company used the correct ADD

FINDING #2:

Exception

The Company used an incorrect Normal Heating Degree Day (NDD) for February 29, 2004.

Discussion

Normal heating degree days are established in the context of a company's rate case. These NDD do not change from year to year unless a company files another rate case. CGC's NDD were established in Docket 95-02116. Parties agreed in Docket 97-00982 to continue using the normal degree days established in the prior docket. For Leap Year's February 29, the normal heating degree day is 19. This was the NDD used in the Company's WNA filing in 2000 that included February 29. In this filing, the Company used 22 NDD.

The use of an incorrect NDD for February 29 led to errors in 21 bill groups in February and March. The errors in WNA factors used for these bill groups resulted in a **\$10,960 over-collection** from CGC's customers

Company Response

The Company agrees with the TRA Staff's finding. The Company used NDDs for the Leap Day, February 29, 2004, that were inconsistent with the NDDs agreed upon in Docket 97-00982

The Company and Staff worked together prior to the beginning of the WNA season in an effort to ensure correct NDDs would be used in WNA calculations for the 2003/2004 WNA season. While both Company personnel and TRA Staff members reviewed the Company's record of NDDs for the 2003/2004 WNA season to ensure agreement of the two files, neither the Company nor Staff recognized at the time, that the NDDs for the Leap Day included in the Company's file was inconsistent with NDDs of 19 that had been computed in the 1995 rate case and agreed to in the most recent rate case.

The Company's error was made despite the efforts of both Company and Staff personnel. The Company concedes that it is not the Staff's responsibility to ensure the Company inputs the correct data into its system. The Company wishes to point out that even with the best intentions, human errors occur. The Company appreciates the cooperation of the Staff and hopes to continue to work with Staff to prevent such errors in the future.

FINDING #3:

Exception

The Company began billing its customers a WNA adjustment on October 23 2003, which is outside the WNA period.

Discussion

During this audit, it came to Staff's attention that the WNA adjustments for Chattanooga customers were billed beginning October 23, 2003. The first seven bill groups for CGC's November billing period were read in October.⁷ Correspondingly, the April 2004 billing period consisted of meter read dates from March 23 through April 21. The weather during both periods was warmer than normal and resulted in additional revenues to the Company.

The time span stated in the WNA Rider tariff for Chattanooga Gas, however, is November through April.⁸ (See copy of the tariff accompanying this report as Attachment 1) Section IV of this report provides a history of the Weather Normalization Adjustment. The final order in Docket 91-01712 instructs CGC to apply the WNA to customer bills November through April of each year. CGC seems to have interpreted this instruction as meaning its November "billing" through its April "billing." While the Authority's order does not specifically state that November 1 is the beginning of the November through April winter heating season, Staff believes there is enough evidence to conclude that November 1 through April 30 is the specific time period that the WNA Rider is applicable.⁹ Therefore, a WNA adjustment should be made to all bills that are read from November 1 through April 30, regardless of the designated bill group for that customer.

Staff discussed this matter with Company personnel during the course of the audit. The Company explained that meter read dates are mapped out for the entire year early in the year. Allowances are made for weekends, holidays and anticipated weather conditions that might delay the reading of meters. Since the WNA Rider was implemented, the reading of the first few bill groups in the November billing has gradually moved forward in time. This has also resulted in the reading of the last few bill groups in the April billing being completed well before April 30. Staff's belief after talking with the Company is that the Company is in agreement that the time period during which it is currently billing the WNA has strayed beyond the boundaries that the Authority contemplated in its final order on the WNA Rider.

Company personnel suggested that while the meter reading schedule could not be altered, it could start billing the WNA adjustment on November 1 (regardless of the bill group affected) going forward and continue through the corresponding bill group in April. This would move all WNA revenues or refunds into the appropriate time period. Staff is in agreement that this should be done and plans to communicate this interpretation of the WNA Rider to all gas utilities operating under a WNA Rider.

⁷ The Company refers to customer bills read October 23 through November 20 (Bill Groups 1-21) as the November billing

⁸ November through April is also referred to as the "winter heating season "

⁹ The Initial Order of the Hearing Office in Docket 91-01712, page 2 affirms that the initial three-year experimental period began on November 1, 1991

Company Response

Historically, the Company begins billing WNA with Bill Group 1 in November of each year and ends billing WNA with Bill Group 21 in April of the following year. The Company billed WNA for the 2003/2004 season in the method consistent with previous years.

After discussions with Staff, the Company agrees that the time period during which it is currently billing the WNA has strayed beyond the boundaries that the Authority contemplated in its final order on the WNA Rider.

Going forward, the Company will begin billing WNA on November 1, regardless of the bill group affected, and continue through the corresponding bill group in April.

FINDING #4:

Exception

Chattanooga Gas has not surcharged/ (refunded) the monetary findings from Staff's last two WNA audits.

Discussion

On October 2, 2002, Staff released its audit report in Docket No. 02-00797. The finding in that docket was a net under-collection of \$4,046. The Company indicated it would debit the deferred gas cost account for the under-collection. On August 5, 2003, Staff released its audit report in Docket No. 03-00373. The finding in that docket was a net over-collection of \$15,942. The Company indicated it would include the over-collection in its next calculation and filing of the Actual Cost Adjustment (ACA) surcharge/ (refund).

Staff has not been able to find documentation in any of the Company's filings to substantiate that the appropriate adjustments have been made. When notified, the Company stated it would check its records and advise the status. See attached Company response.

Company Response

The Company agrees that it inadvertently did not include the net under-collection of \$4,046, found in Staff's WNA Audit Report in Docket No. 02-00797, in the Company's calculation and filing of the 2002/2003 ACA surcharge/(refund) filed on September 3, 2003. It is the Company's intent to include this under-collection in the Company's 2003/2004 ACA filing.

The Company has not yet included the net over-collection of \$15,942 found in the Staff's WNA Audit Report in Docket No. 03-00373 because the Company has not filed its next ACA filing subsequent to the TRA's adoption of Staff's report on February 6, 2004. It is the Company's intent to include the WNA over recovery of \$15,942 in the calculation and filing of Chattanooga Gas Company's 2003/2004 ACA refund / (surcharge).

VII. CONCLUSIONS AND RECOMMENDATIONS

This audit of CGC's WNA Rider did not result in any material findings. The Company has responded to each finding and the compliance audit staff concurs with those responses. Staff recommends that the \$10,769 over-collection from CGC's customers be refunded by the Company through the deferred gas cost account as has been the Company's past practice. The Company has agreed to do so.

ATTACHMENT 1

CHATTANOOGA GAS COMPANY
GAS TARIFF
TRA NO. 1

FIRST REVISED SHEET NO. 49

WEATHER NORMALIZATION ADJUSTMENT

(WNA) RIDER

PROVISION FOR ADJUSTMENT

The base rate per CCF/therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment."

DEFINITIONS

For Purpose of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Authority Specifically prescribing or fixing the factors and procedures to be used in the application of this Rider

COMPUTATION OF WEATHER NORMALIZATION ADJUSTMENT

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per CCF/therm by the following formula:

$$WNA_i = R_i \frac{(HSF_i (NDD - ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- WNA_i = Weather Normalization Adjustment Factor for the i^{th} Rate Schedule or classification expressed in cents per CCF/therm
- R_i = weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- HSF_i = heat sensitive factor for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- BL_i = base load sales for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

FILING WITH AUTHORITY

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

WEATHER NORMALIZATION ADJUSTMENT
(WNA) RIDER COMPONENTS

<u>RATE SCHEDULE</u>	WEIGHTED BASE RATE <u>(\$CCF)</u>	HEAT SENSITIVE FACTOR - HSF <u>(CCF)</u>	BASE LOAD - BL <u>(CCF)</u>
<u>(R-1) RESIDENTIAL GENERAL SERVICE</u>			
Winter (November - April)	.203346	208678	17.224
<u>(R-4) MULTI-FAMILY HOUSING SERVICE</u>			
Winter (November - April)	.208600	.119141	25 044
<u>(C-1) COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u>			
Winter (November - April)	.257377	.987685	221 606